

# PUBLIC DISCLOSURE

October 14, 1997

## COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Farmers Bank and Trust Company  
RSSD #33147

400 West Main Street  
Blytheville, Arkansas 72315

Federal Reserve Bank of St. Louis

P.O. Box 442

St. Louis, Missouri 63166-0442

NOTE: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the Federal Reserve concerning the safety and soundness of this financial institution.

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## GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the Community Reinvestment Act (CRA) performance of **Farmers Bank and Trust Company** prepared by the **Federal Reserve System**, the institution's supervisory agency, as of October 14, 1997. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.

**INSTITUTION'S CRA RATING:** This institution is rated Satisfactory.

*An institution in this category has a reasonable performance record and adequate involvement in activities undertaken to help meet the credit needs of its entire assessment area, particularly in low- and moderate-income neighborhoods and to low- and moderate-income borrowers, in a manner consistent with institutional capacity and constraints, assessment area credit needs and opportunities, relevant demographic and economic factors and safe and sound banking practices.*

## DESCRIPTION OF INSTITUTION

*Farmers Bank and Trust is owned by Farmers Bancorp, Incorporated, a one-bank holding company. The institution operates five banking facilities, including the main office, three branches in Blytheville, Arkansas, and one branch in the neighboring community of Gosnell, Arkansas. While loans are available only through the bank's main office, a full-range of deposit products and services are offered at each of the bank's facilities. In addition, the bank operates automated teller machines at each branch.*

*Farmers Bank and Trust is a commercial and retail institution whose primary loan products include residential real estate loans, consumer loans, and small business loans. As of June 30, 1997, the bank reported \$149.4 million in total assets. Within the Blytheville market, a nominal level of competition exists among financial institutions. Presently, the bank considers itself to be competing with three other area institutions of varied size and structure. The total assets of the competing institutions range from \$44.1 million for a local credit union to \$326.4 million for a regional bank with a branch in Blytheville.*

## DESCRIPTION OF ASSESSMENT AREA

*The bank defines its assessment area as census tracts 101 through 107. This area is contained entirely within Mississippi County and includes the city of Blytheville, as well as the adjacent communities of Gosnell, Dell, and Burdette. With a population of approximately 24,000, Blytheville is the largest city in the assessment area. Based on the 1990 census, the total population of the assessment area is 33,278.*

As of the 1990 census, the median family income for the assessment area was \$23,010, compared to the statewide nonmetropolitan median family income of \$22,420. Based on these figures, the seven census tracts included in the assessment area are classified according to the income characteristics shown in the following table along with the population distribution within those geographies:

Distribution of Census Tracts in Assessment Area by Income Level					
CTs/ BNAs	Income Level Classification <sup>1</sup>				Total
	Low	Moderate	Middle	Upper	
Number of Census Tracts	N/A	2 28.6%	4 57.1%	1 14.3%	7 100%
Population Distribution	N/A	26.5%	57.4%	16.1%	100%

As illustrated in the table above, the assessment area's population is distributed relatively proportionately throughout the census tracts. Although the assessment area includes no low-income geographies, low-income families are present throughout the community.

The following table represents the income characteristics of the population in the assessment area per the 1990 census:

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<sup>1</sup> Low-income is defined as individual income, or in the case of a geography, a median family income that is less than 50 percent of the MSA median family income or statewide nonmetropolitan median family income. MSA median family income is used for evaluating geographies located within an MSA, while the statewide nonmetropolitan median family income is used for geographies outside an MSA.

Moderate-income is defined as individual income, or in the case of a geography, a median family income that is at least 50 percent and less than 80 percent of the MSA median family income or the statewide nonmetropolitan median family income.

Middle-income is defined as individual income, or in the case of a geography, a median family income that is at least 80 percent and less than 120 percent of the MSA median family income or the statewide nonmetropolitan median family income.

Upper-income is defined as individual income, or in the case of a geography, a median family income that is 120 percent or more of the MSA median family income or the statewide nonmetropolitan median family income.

Income Characteristics of Assessment Area Population				
Income Level	Low	Moderate	Middle	Upper
Population Percentage	20.1%	17.4%	20.0%	42.5%

*For years, the Blytheville community has experienced unemployment levels significantly higher than the statewide average. This trend continues as the unemployment rate is estimated to be 10.0 percent for the city of Blytheville and 10.7 percent for Mississippi County, Arkansas. These figures compare to a statewide rate of 5.4 percent. According to bank management and community contacts, the low- and moderate-income segments of the population are the most adversely affected by the high level of unemployment. While the expansion of the local steel industry has brought many jobs to the area, most of the new job opportunities have been skilled positions filled by the middle- and upper-income segments of the population. This has lead to a continually widening gap in the stratification of the population by income. The low- and upper-income segments continue to grow, while the moderate- and middle-income layers are shrinking.*

*The local housing market suffers from an overabundance of rental units. As of the 1990 census, 44.8 percent of the housing units in the assessment area were rental units. This compares to a nonmetropolitan statewide level of 24.2 percent. This disparity has likely increased over the last three years as closure of a local armed services base added over 500 new rental units to the market. This situation, coupled with the growing gap in income stratification and a lack of affordable housing development, has proven detrimental to the accessibility of affordable housing stock for individual ownership.*

## CONCLUSIONS WITH RESPECT TO THE PERFORMANCE CRITERIA:

### Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

Statistical samples of residential real estate first mortgages and small business loans, two of the bank's primary lending products, were evaluated for penetration among individuals of different income levels and businesses of different revenue sizes.<sup>2</sup> The samples included loans originated during the six-month period ending October 10, 1997. The following table reflects the distribution of residential real estate first mortgages.

Distribution of Loans (Number and Dollar Volume) Inside Assessment Area by Income Level of Borrower					
Loan Type	Borrower Income Classification <sup>3</sup>				Totals
	Low-	Moderate-	Middle-	Upper-	
Residential Real Estate	1	2	10	54	67
	1.5%	3.0%	14.9%	80.6%	100%
Assessment Area Population	20.1%	17.4%	20.0%	42.5%	100%

As illustrated in the table above, 4.5 percent of residential real estate loans were originated to low- and moderate-income borrowers. In comparison, 37.5 percent of the assessment area population is classified as low- and moderate-income. While the bank's loan distribution appears unfavorably low, a number of mitigating factors must be considered. First, the saturation of rental housing coupled with the low availability of affordable housing units for individual ownership limits the local demand by low- and moderate-income borrowers for residential loans. Secondly, the area's high unemployment level and growing gap in income stratification have adversely impacted the low- and moderate-income segments of the population. This situation makes it difficult for many potential borrowers to qualify for credit; thus, distribution percentages are skewed toward middle- and upper-income borrowers. Lastly, the bank's distribution of this loan category to low- and moderate-income borrowers has increased from a level of 1.9 percent at the last examination.

The bank's performance under this criteria is also elevated by the distribution of small business loans. The following table illustrates the level of lending

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<sup>2</sup> The borrowers' income levels were compared to the 1997 statewide nonmetropolitan median family income of \$29,500, as made available by the Department of Housing and Urban Development. Borrowers were categorized using the income definitions in footnote one.

<sup>3</sup> Distribution percentages exclude loans where income information was unavailable.

to businesses of different sizes.

Distribution of Small Business Loans				
Gross Revenue	Loan Origination Amount \$(000's)			Total Loans
	≤ \$100	> \$100 ≤ \$250	> \$250 < \$1,000	
Less than \$1 million	41 64.0%	3 4.7%	1 1.6%	45 70.3%
	\$937,966 20.2%	\$465,014 10.0%	\$600,000 12.9%	\$2,002,980 43.0%
Greater than \$1 million	13 20.3%	3 4.7%	3 4.7%	19 29.7%
	\$583,665 12.5%	\$508,429 10.9%	\$1,559,360 33.5%	\$2,651,454 57.0%
Total Loans	54 84.3%	6 9.4%	4 6.3%	64 100.0%
	\$1,521,631 32.7%	\$973,443 20.9%	\$2,159,360 46.4%	\$4,654,434 100.0%

The above table shows that 45, or 70.3 percent, of the bank's 64 small business loan originations were made to businesses with gross annual revenues less than \$1 million. Furthermore, 41, or 91.1 percent, of those 45 loans were originated in amounts of \$100,000 or less. Overall, more than 84 percent of the bank's small business loan originations were in amounts of \$100,000 or less. By dollar volume, 46.8 percent of the loans were to businesses with gross annual revenues less than \$1 million and for amounts of \$100,000 or less.

Based upon the mitigating factors in connection with residential real estate lending and the bank's distribution of small business loans, the performance under this category is considered reasonable.

### Geographic Distribution

The bank's assessment area contains two moderate-income census tracts, four middle-income census tracts and one upper-income census tract. There are no low-income census tracts in the bank's assessment area.

The following chart depicts the distribution of the bank's residential real estate loans and small business loans across these geographies.

Geographic Distribution of Loans (Number and Dollar Volume) Across Assessment Area by Income Level of Census Tracts

Geographic Distribution of Loans (Number and Dollar Volume) Across Assessment Area by Income Level of Census Tracts					
Loan Type	Census Tract Income Classification				Total
	Low-	Moderate-	Middle-	Upper-	
Residential Real Estate	NA	10 14.9%	33 49.3%	24 35.8%	67 100%
	NA	\$338,548 9.5%	\$1,920,789 53.8%	\$1,313,768 36.7%	\$3,573,105 100%
Small Business	NA	27 40.9%	30 45.5%	9 13.6%	66 100%
	NA	\$1,715,107 30.8%	\$3,533,627 63.4%	\$325,700 5.8%	\$5,574,434 100%
Total Loans Sampled	NA	37 27.8%	63 47.4%	33 24.8%	133 100%
	NA	\$2,053,655 22.5%	\$5,454,416 59.6%	\$1,639,468 17.9%	\$9,147,539 100%
Population Residing in Census Tracts		26.5%	57.4%	16.1%	100%

As illustrated in the table above, the bank originated 27.8 percent of its loans in moderate-income census tracts. By dollar volume, 22.5 percent of the originations were in moderate-income census tracts. Given that 26.5 percent of the assessment area population resides in moderate-income census tracts, the bank's distribution of loans to those geographies is reasonable.

#### Lending in the Assessment Area

A review of the samples of residential real estate loans and small business loans revealed that a significant majority of the bank's loans are located within the assessment area. The following table identifies, by loan type, the number, dollar volume and percentage of loans originated inside the assessment area.

Distribution of Loans In/Out of the Assessment Area			
Loan Type	Sample Size	Inside Assessment Area	Outside Assessment Area

Distribution of Loans In/Out of the Assessment Area					
		Number	Dollar	Number	Dollar
Residential Real Estate	77	67 87.0%	\$3,573,105 83.9%	10 13.0%	\$684,801 16.1%
Small Business	73	66 90.4%	\$5,574,434 90.4%	7 9.6%	\$594,810 9.6%
<b>Totals</b>	<b>150</b>	<b>133 88.7%</b>	<b>\$9,147,539 87.7%</b>	<b>17 11.3%</b>	<b>\$1,279,611 12.3%</b>

As depicted in the table above, 133, or 88.7 percent, of the 150 loans sampled were located within the assessment area. By dollar volume, nearly 88 percent of the loans sampled were located inside the assessment area. As a result, the bank's performance under this criteria meets the standard for satisfactory performance.

#### Loan-to-Deposit Ratio

The bank's average net loan-to-deposit ratio for the six quarters from March 31, 1996 through June 30, 1997, is 51.4 percent. For the same period, the average net loan-to-deposit ratio for a similarly-situated competing institution in the city of Blytheville was 53.5 percent. The bank's loan-to-deposit ratio is considered reasonable, given the bank's performance context. The performance context includes the bank's capacity to lend, the capacity of other similarly-situated banks to lend, demographic and economic factors, and lending opportunities available in the bank's assessment area.

#### Review of Complaints

No CRA-related complaints have been received since the prior examination, conducted on February 20, 1996.

#### Additional Information:

A fair lending analysis was performed to assess compliance with the Equal Credit Opportunity and the Fair Housing Acts. The analysis revealed that the bank is in compliance with the substantive provisions of the antidiscrimination laws and regulations. Furthermore, results of the analysis suggested that applications were actively solicited from all segments of the bank's assessment area.